

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2013-275-WS ORDER NO. 2014-\_\_\_\_\_**  
**MARCH \_\_, 2014**

IN RE:	)	ORDER APPROVING
Application of Carolina Water Service, Inc.	)	INCREASE IN RATES
for Adjustment of Rates and Charges and	)	AND CHARGES,
Modifications of Certain Terms and	)	RATE SCHEDULE
Conditions for the Provision of Water and	)	MODIFICATIONS AND
Sewer Service	)	SETTLEMENT
_____		AGREEMENT

**INTRODUCTION**

This matter comes before the Public Service Commission of South Carolina (“the Commission”) on an application for approval of a new schedule of rates and charges for water and sewer services (“Application”) filed by Carolina Water Service, Inc. (“CWS” or the “Company”). CWS is a National Association of Regulatory Utility Commissioners (“NARUC”) Class A water and wastewater utility. CWS provides water and wastewater service in its approved service area which includes portions of Aiken, Beaufort, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg, and York Counties. As of December 31, 2012, CWS provided water supply and water distribution services to 8,271 residential and commercial customers and wastewater collection and treatment services to 13,414 residential and commercial customers.

This matter was initiated on September 4, 2013, when CWS filed an Application with the Commission for the adjustment of its rates and charges and for modifications of certain terms and conditions for the provision of water and sewer service to its customers. *See* S.C. Code Ann. §58-5-240 (Supp. 2012). According to CWS's Application, the rates sought by the Company would permit it the opportunity to earn an additional \$2,093,583 in annual revenues.

The Commission issued a Notice of Filing and Hearing in this matter on September 18, 2013, and a Revised Notice of Filing and Hearing on September 20, 2013. The Revised Notice of Filing and Hearing scheduled the hearing for January 14, 2014. The Revised Notice of Filing indicated the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. The Commission instructed CWS to publish the Revised Notice of Filing in newspapers of general circulation in the areas affected by CWS's Application. In the same correspondence, the Commission also instructed CWS to furnish by U.S. Mail the Notice of Filing and Hearing to each customer affected by the Application. CWS provided the Commission with Affidavits of Publication demonstrating that the Revised Notice of Filing had been duly published and with an Affidavit of Mailing, in which CWS certified compliance with the Commission's instruction to mail a copy of the Revised Notice of Filing to all customers affected by the Application.

On October 3, 2013 Forty Love Point Homeowners Association ("Forty Love Point HOA") filed a petition to intervene in this matter. Pursuant to S.C. Code Ann. § 58-4-

10(B) (Supp. 2012), the South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding. The only admitted Parties to the proceeding were CWS, Forty Love Point HOA, and ORS.<sup>1</sup>

By Order No. 2013-739, dated October 15, 2013, the Commission acting on the motion of CWS appointed F. David Butler, Esquire as hearing officer in this docket. Under S.C. Code Ann. § 58-3-40 (Supp. 2012), the hearing officer has full authority, subject to being overruled by the Commission, to rule on questions concerning the conduct of the case and other matters.

By Order No. 2013-773 dated October 23, 2013, the Commission granted a customer’s request for a local public hearing in Lake Wylie, South Carolina. On November 6, 2013, the Commission by Order No. 2013-804 granted a customer’s request for a local public hearing to be held in the Commission’s hearing room in Columbia, South Carolina. The Commission orders granting the public hearings directed the Commission Staff to schedule the public hearings, and local public hearings were scheduled and held on December 12, 2013, in Lake Wylie, South Carolina and on January 13, 2014, in Columbia,

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<sup>1</sup> By letter dated October 10, 2013, Don Long, a customer of the Company in Lake Wylie, filed a letter wherein he made a number of requests concerning the proceedings scheduled in this docket. Mr. Long also indicated that he was “representing” himself as well as other entities, but the letter was not clear whether Mr. Long was requesting to status as an “intervenor” or “protestant.” By Order No. 2013-773 dated October 23, 2013, the Commission ruled on Mr. Long’s requests and instructed Mr. Long to notify the Commission of his status as either an intervenor or protestant by November 1, 2013. Thereafter, by letter dated November 14, 2013, Mr. Long filed a letter in response to Order No. 2013-773 wherein Mr. Long requested reconsideration of Order No. 2013-773. On November 26, 2013, CWS filed a response opposing Mr. Long’s motion to reconsider. By email dated November 27, 2013, Mr. Long filed a reply to CWS’s response. In Order No. 2013-868, dated December 4, 2013, the Commission denied the request for reconsideration filed by Mr. Long and ruled that Mr. Long was not an intervenor in the docket but noted that Mr. Long could appear as a protestant. At the public night hearing on December 12, 2013, Mr. Long appeared and gave testimony as a protestant.

South Carolina.<sup>2</sup> CWS provided the Commission with Affidavits of Mailing attesting to sending copies of the notices of the public night hearings to the customers of CWS.

On January 7, 2014, counsel for the ORS, on behalf of CWS, Forty Love Point HOA, and the ORS (the “Parties”), filed a Settlement Agreement (the “Settlement Agreement”) with the Commission. The Parties represented to the Commission that they had negotiated a resolution to the issues presented in this case and determined that their interests would best be served by settling under the terms and conditions set forth in the Settlement Agreement which is attached hereto as Order Exhibit 1. ORS stated in the Settlement Agreement that the settlement serves the public interest, preserves the financial integrity of the Company, and promotes economic development within the State of South Carolina.

The Settlement Agreement provides for rates that would produce additional annual revenues of \$1,037,779, a 9.50% return on equity (“ROE”), and a 12.69% operating margin. The rates included in the Settlement Agreement provide for an increase in water rates where CWS will charge residential water customers and commercial water customers with a 5/8” meter served from a well source a base facility charge of \$12.49 per month and a commodity charge of \$4.72 per 1,000 gallons and residential customers and commercial customers with a 5/8” meter served by a third party bulk supplier a base facility charge of \$12.49 per month and a distribution charge/commodity charge of \$2.71 per 1,000 gallons plus a pro rata share of the cost of water from the bulk suppliers. Commercial water

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<sup>2</sup> The local public hearing in Columbia was originally scheduled for the evening of January 14, 2014. However, Senator Katrina F. Shealy requested that the local public hearing be rescheduled for January 13, 2014. By directive of the Hearing Officer dated December 13, 2013, the evening local hearing was rescheduled for January 13, 2014. CWS provided an Affidavit of Mailing attesting to the issuance of the Rescheduled Notice of Public Night Hearing for Columbia.

customers with a 1” meter or larger are charged a higher base facility charge plus the cost of water. Residential sewer service rates are increased to \$45.04 per month, commercial sewer service rates are increased to \$45.04 per single family equivalent (“SFE”), and collection service only rates are increased to \$29.69 per residential unit for residential customers or per SFE for commercial customers plus treatment charges imposed by a third party.

**I. TESTIMONY RECEIVED FROM THE PARTIES  
AND THE PUBLIC WITNESSES**

Pursuant to Commission Orders No. 2013-773 and No. 2013-804, the Commission Staff scheduled public hearings for December 12, 2013, at 6:00 P.M. at the River Hills Community Church in Lake Wylie, South Carolina and for January 13, 2014, at 6:00 P.M. at the Commission’s Hearing Room in Columbia, South Carolina. At the December 12, 2013, public hearing in Lake Wylie, approximately 59 members of the public attended and 16 appeared as witnesses to provide testimony and documentary evidence. At the January 13, 2014, public hearing in Columbia, 12 members of the public testified before the Commission.

A public hearing was held in the offices of the Commission on January 14, 2014, beginning at 10:00 a.m., to receive testimony from the Parties and any public witnesses. The Honorable G. O’Neal Hamilton, Chairman of the Commission, presided. F. David Butler, Esquire served as hearing officer. CWS was represented by Charles L. A. Terreni, Esquire and Scott Elliott, Esquire. Forty Love Point HOA was represented by Laura P.

Valtorta, Esquire. ORS was represented by Jeffrey M. Nelson, Esquire and Florence P. Belser, Esquire.

At the beginning of the hearing, the Commission received the Settlement Agreement and without objection accepted the Settlement Agreement in the record as Hearing Exhibit Number 12.

By agreement of the parties, the following prefiled testimonies and, where applicable, prefiled exhibits of witnesses were stipulated into the record: the prefiled Direct Testimony of CWS's witness Dylan D'Ascendis; the prefiled Rebuttal Testimony of CWS's witness Bob Gilroy; the prefiled Direct Testimonies of Forty Love Point HOA's witnesses Frank Rutkowski and Leslie Hendrix; and the prefiled Direct Testimony of ORS witness Douglas H. Carlisle, Ph.D. Witnesses appearing for CWS were Richard J. Durham, Patrick Flynn, Karen Sasic, and Bob Gilroy. Mr. Durham presented his prefiled Direct Testimony and prefiled Settlement Testimony. Mr. Flynn presented his prefiled Direct Testimony and prefiled Responsive Testimony and Exhibits. Ms. Sasic presented her prefiled Direct and Responsive Testimonies, and Mr. Gilroy presented his prefiled Rebuttal Testimony. Forty Love Point HOA witness Reid Radtke appeared and presented his prefiled Direct Testimony and his testimony in support of the Settlement Agreement. As its witnesses, ORS presented Willie J. Morgan, Dawn M. Hipp, and Daniel F. Sullivan, each of whom presented his/her prefiled Direct Testimony. In addition, Mr. Morgan and Mr. Sullivan sponsored certain updated Exhibits to account for and illustrate the effects of the Settlement Agreement. *See*, Hearing Exhibit 19 (Revised WJM-2) and Hearing Exhibit 21 (Revised Audit Exhibits DFS-1 through DFS-8).

CWS witness Durham described the terms of the Settlement Agreement. Mr. Durham testified that under the terms of the Settlement Agreement additional operating revenues of \$1,037,779 would be generated, a reduction in the additional revenues requested in CWS's application of \$1,055,804. Mr. Durham further testified that the Agreement provided for a 9.50% ROE and an operating margin of 12.69%. Mr. Durham testified that the Settlement Agreement and the rates produced thereunder represent a fair compromise of the Parties' positions. Further, Mr. Durham offered that the settlement reduces regulatory costs going forward and gives CWS a better opportunity to earn its authorized return. Finally, Mr. Durham testified that the Settlement Agreement and the rates produced thereunder are fair and reasonable and in the public interest and urged the Commission to approve the Settlement Agreement.

Mr. Flynn provided testimony concerning CWS's operations and capital investments made by CWS subsequent to the test year from the previous rate case. Mr. Flynn testified that CWS has roughly 8,000 water customers in 21 water systems and approximately 13,000 sewer customers in Beaufort, Georgetown, Lexington, Orangeburg, Sumter, and York Counties. From September 30, 2010, which was the end of the test year in the last rate case, Mr. Flynn testified that CWS had invested over \$4.8 million dollars in many of its water and sewer systems, and he provided the details of some of the more substantial capital investments made. Among the capital investments described by Mr. Flynn were interconnection with the City of West Columbia in Indian Pines subdivision; replacement of a hydropneumatic tank, chemical feed and storage equipment in Peachtree Acres; installation of 3,500 linear feet ("LF") of cured-in place pipe in gravity sewer main

in Rollingwood to eliminate excess inflow and infiltration (“I&I”); refurbish a lift station, restore pumping capacity, eliminate confined space entry hazards, replace worn out assets, and restore duplex pumping operations in River Hills; installation of an aerobic digester, a chlorine contact tank, and a dechlorination tank, chemical storage and feed equipment, and instrumentation to the Lincolnshire/White’s Creek wastewater treatment plant (“WWTP”); video inspection of the collection system, identify and fix pipe deficiencies contributing to excess I&I including main line and lateral lining, manhole installations, point repairs, and elder valves, and construction of an interconnection with Georgetown County Water and Sewer District in Lincolnshire/White Creek’s subdivisions; refurbishment and reestablishment of leach fields to provide adequate percolation rate for effluent disposal at the Smallwood Estates WWTP; installation of UV disinfection equipment at the Pocalla WWTP; video inspection of 13,000 LF of gravity sewer main to identify location and severity of I&I in Friarsgate collection system; removal of accumulation of inert and organic sludge from ½ acre equalization pond in Springhill; replacement of power feed and electrical components at a lift station in Secret Cove; and refurbishment of tanks and renew coating system on steel structures at Roosevelt Gardens WWTP. Tr. pp 196 – 198.

With respect to concerns raised by witnesses during the night hearings of December 12, 2013, in Lake Wylie and of January 13, 2014, in Columbia, Mr. Flynn, Ms. Sasic, and Mr. Gilroy responded to the concerns of the customers and other public witnesses.

Forty Love HOA witness Reid Radtke testified in support of the Settlement Agreement. Tr. pp. 323 – 325. In particular, Mr. Radtke testified concerning his neighborhood’s desire to move to an interconnection with the City of Columbia for bulk



water. *Id.* Mr. Radtke opined that his neighborhood wants to move to a “pass-through” system and acknowledged the paragraph in the Settlement Agreement providing that the Parties “agree to work together to study the feasibility of interconnection of Forty Love [subdivision] to the City of Columbia water system.” *Id.*

ORS witness Sullivan sponsored several exhibits to reflect the results of the ORS audit of CWS’s application and books and records and the Settlement Agreement reached by the Parties. Mr. Sullivan’s exhibits are individually numbered as “Revised Exhibit DFS-1” through “Revised Exhibit DFS-8” and are collectively in the hearing record as Hearing Exhibit No. 21. In the Settlement Agreement, the Parties negotiated certain accounting adjustments pertaining to test year revenues, test year expenses, rate base items, and the Company’s proposed increase. The net effects of the adjustments negotiated in the Settlement Agreement were an increase of \$17,670 to the Company’s per book Total Operating Revenues, a reduction of \$18,048 to the Company’s per book Total Operating Expenses, and an increase of \$858,389 to the Company’s per book Total Rate Base. These adjustments were accepted by CWS for purposes of this rate case resulting in as adjusted Total Operating Expenses of \$6,985,729 and as adjusted rate base of \$26,697,965.

The Settlement Agreement also provided for new rates for the Company which would produce additional revenue of \$1,037,779, which is \$1,055,804 less than the proposed increase contained in CWS’s application. Revised Exhibit DFS-1 contained in Hearing Exhibit 21 reflects the \$1,037,779 revenue requirement resulting from the Settlement Agreement. According to Mr. Sullivan’s Revised Exhibit DFS-1, as adjusted test year Total Operating Revenues were \$8,463,388, as adjusted Total Operating Expenses

were \$6,985,729, and Customer Growth of \$10,423 was added, resulting in Net Income for Return of \$1,488,082. Also, Return of Rate Base (“ROR”) was computed as 5.57%, and an Operating Margin was calculated of 6.70%. After the increase of \$1,037,779 contained in the Settlement Agreement, Total Operating Revenues were calculated as \$9,501,167, Total Operating Expenses were calculated as \$7,388,852, Customer Growth of \$15,035 was added, and Net Income for Return was calculated as \$2,127,350, with a resulting Operating Margin of 12.69%. Using the ROE of 9.50% agreed to in the Settlement Agreement, ROR after the increase was 7.97%

ORS witness Morgan testified that CWS is a NARUC Class A water utility and wastewater utility providing service to portions of Aiken, Beaufort, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg, and York Counties. Tr. pp. 351-352. According to information contained in the Company’s Application, CWS provided water supply/distribution services to 8,271 residential and commercial customers, and wastewater collection and treatment services to 13,414 residential and commercial customers for the test year ending December 31, 2012. Tr. p. 352. Mr. Morgan’s testimony provided a summary of ORS’s Business Office Compliance Review and a summary of ORS inspections of CWS’s water supply/distribution and wastewater collection/treatment systems.

With regard to CWS’s water supply/distribution systems, Mr. Morgan testified that CWS operates twenty-one systems in South Carolina. Water is provided by CWS-operated wells or by third-party (outside) bulk water providers. ORS identified that CWS had completed an interconnection to a bulk water supplier to serve the Indian Pines subdivision.

ORS also recognized that CWS had not obtained approval from the Commission for the bulk water supplier agreement associated with the interconnection. In his direct testimony, Mr. Morgan recommended that CWS seek Commission approval for the bulk water agreement and any other contracts that may “impact, pertain to or effect” the fitness, willingness or ability of CWS to provide water services as required by Commission Regulation 103-743.

As to CWS’s wastewater systems, Mr. Morgan noted that CWS operates eight (8) wastewater collection and treatment systems and seven (7) wastewater collection-only systems. For the collection-only systems, CWS collects wastewater from the customers and transports the wastewater to another entity for treatment and disposal.

ORS completed a comprehensive review of CWS’s water and wastewater revenue calculations for the test year using data provided by CWS during the audit process. Mr. Morgan provided his calculations to ORS witness Sullivan who included the adjustment proposed by Mr. Morgan in Hearing Exhibit 21.

Dr. Carlisle’s Direct Testimony addressing the issue of a fair and reasonable ROE was stipulated into the record, and Dr. Carlisle was made available for questions from the Commissioners. In reaching his recommended range, Dr. Carlisle evaluated the return requirements of investors of a group of publicly held water and sewerage service companies and a Comparable Earnings Model (“CEM”) group. Then, Dr. Carlisle applied the Discounted Cash Flow (“DCF”) Model and the Capital Asset Pricing Method (“CAP-M”) to the group of publicly held water and sewerage service companies, and he applied

the CEM to the CEM group. Based on his analysis, Dr. Carlisle recommended a ROE for CWS in the range of 9.03% to 10.21%.

## **II. FINDINGS OF FACT AND CONCLUSIONS OF LAW**

Based upon the Application, the Settlement Agreement, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission makes the following findings of fact:

1. By statute, the Commission is vested with jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State. S.C. Code Ann. § 58-5-210 (1976). The Company is engaged in the business of providing water and wastewater collection and treatment services to the public for compensation in portions of Aiken, Beaufort, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg, and York Counties and is therefore a public utility subject to the Commission's jurisdiction.

2. The Company is lawfully before the Commission on an application for rate relief and modifications to the terms and conditions of its services pursuant to S.C. Code Ann. §58-5-240(A) (Supp. 2012) and 10 S.C. Code Ann. Regs. 103-503 and 103-512.4.A (2012).

3. The appropriate test year for use in this proceeding is January 1, 2012, to December 31, 2012. CWS submitted evidence in this case with respect to its revenues and expenses using a test year consisting of the twelve (12) months ended December 31, 2012.

The Settlement Agreement is based upon the same test year and reflects the Parties proposed settlement adjustments to the test year revenue and expense figures submitted by CWS.

4. The Settlement Agreement resolving the issues in this proceeding between the Parties was filed with the Commission on January 7, 2014, and was admitted into evidence during the hearing before the Commission on January 14, 2014.

5. By its Application, CWS requested an increase in rates and charges of \$2,093,583 for its combined operations to produce net operating income of \$2,492,000 after the proposed increase.

6. The Settlement Agreement, reflecting the Parties settlement accounting and pro forma adjustments to test year revenues and expenses, provides for an increase in operating revenues of \$1,037,779 and an agreed upon 9.50% ROE, producing an Operating Margin of 12.69%.

7. As a result of the Settlement Agreement and the agreed upon ROE, Operating Margin, and proposed increase, Net Income for Return is calculated to be \$2,127,350 (total operating revenues of \$9,501,167, less total operating expenses of \$7,388,852 plus customer growth of \$15,035).

8. After careful review and consideration by this Commission of the Settlement Agreement and the evidence contained in the record of this case, including the testimony of the witnesses and the hearing exhibits, the Commission finds and concludes that the Settlement Agreement results in just and reasonable rates and charges for the provision of water and sewer services. Based on the operating revenues, income, and

expenses agreed upon by the Parties, the resulting allowable operating margin for the Company is 12.69%. See S.C. Code Ann. § 58-5-240(H) (Supp. 2012).

9. The Commission finds that the rates and charges reflected in the rate schedule agreed to by the Parties in the Settlement Agreement, which rate schedule is included in the Settlement Agreement as Settlement Agreement Exhibit-1, are just and reasonable, fairly distribute the costs of providing service as reflected in the Company's revenue requirement and allow CWS to provide its customers with adequate water and sewer service. We find that the rate schedule agreed to by the Parties provides terms and conditions for water and sewer services that are also just and reasonable. Further, the agreed upon rates allow CWS an opportunity to earn a reasonable return on its investment. We therefore find that the proposed rates, charges, and terms and conditions of service contained in the rate schedule attached to the Settlement Agreement and identified as Settlement Agreement Exhibit-1 are just and reasonable and are hereby approved in their entirety. The Settlement Agreement with its attached Settlement Agreement Exhibit-1 is attached to this Order as Order Exhibit 1.

10. The Commission finds that the proposed modifications and additions to the terms and conditions of the Company's water and sewer service, specifically the language providing for the establishment of: (1) a non-recurring water disconnection charge of \$40, (2) a \$35.00 water meter installation fee where no meter has been provided by a developer to the Company, (3) non-recurring sewer disconnection charges of \$500 where no elder valve is installed and \$40 where an elder valve is already installed, and (4) a tampering

charge of up to \$250 per occurrence for actual costs incurred by CWS are appropriate, just, and reasonable.

11. By agreement of the Parties, the Company's request for the establishment of a leak mitigation fund charge to CWS's customers is denied.

### **III. EVIDENCE FOR FINDINGS OF FACT AND CONCLUSIONS OF LAW 1-3**

The Company is a public utility subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. § 58-3-140(A) (Supp. 2012) and 58-5-210 (1976). The Commission requires the use of an historic twelve-month test period under 10 S.C. Code Ann. Regs. 103-823(A)(3) (2012). These findings of fact and conclusions of law are informational, procedural and jurisdictional in nature and are not contested by any party of record in this proceeding.

### **IV. EVIDENCE FOR FINDINGS OF FACT AND CONCLUSIONS OF LAW 4-11**

CWS's last rate case was before the Commission in Docket No. 2011-47-WS. In that Docket, the Commission denied CWS's request for a rate increase. CWS appealed the decision of the Commission, and pursuant to S.C. Code Ann. § 58-5-240(D), CWS placed rates into effect under bond. Those rates under bond are the rates which are currently being charged by CWS. The remand of Docket No. 2011-47-WS is presently pending before the Commission.<sup>3</sup>

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<sup>3</sup> The Parties agreed that approval of the Settlement Agreement in the instant docket would also resolve the remand of Docket No. 2011-47-WS presently pending before the Commission. *See* Hearing Exhibit 12, p. 7, ¶ 18 ("The Parties agree that, if approved, this Settlement Agreement will also resolve all pending issues in Docket No. 2011-47-WS to include any dispute which may exist regarding CWS's claim to regulatory expenses, including but not limited to attorney's fees, incurred in connection with CWS's previous rate case

On September 4, 2013, CWS filed its application seeking an increase in annual operating revenues of \$2,093,583. Application, Exhibit B, Schedule B. With the requested proposed increase, CWS calculated net operating income for combined operations of \$2,492,000. *Id.* The Company and ORS submitted evidence in this case with respect to revenues and expenses using a test year for the twelve months ending December 31, 2012. The Settlement Agreement filed by the Parties on January 7, 2014, is based upon the same test year and provides for an increase in annual operating revenues of \$1,037,779. Hearing Exhibit 9. The Parties have also agreed to an ROE of 9.50%, and an Operating Margin of 12.69%. Hearing Exhibit 9.

**a) Basis for Rate Relief**

According to the testimony of CWS witness Durham, increases in operating expenses and additional plant investments have resulted in CWS being unable to earn its authorized rate of return. Tr. p. 161. CWS's application contains schedules reflecting for test year combined operations and after the Company's pro forma adjustments Net Income of \$213,297, Net Operating Income of \$1,211,389, and a Return on Rate Base of 4.20%.

Although the increase in allowable expenses reflected in the testimony of ORS witness Sullivan and his Revised Exhibit DFS-1 is less than initially asserted by the Company, adjusted test year amounts reveal returns lower than the approved returns of the Company. After ORS' accounting and pro forma adjustments, test year Total Operating

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in Docket No. 2011-47-WS. The Parties further agree that, by approving the rates resulting from this settlement agreement, the Commission is also approving the rates put in effect under bond by CWS in Docket No. 2011-47-WS. Therefore, upon approval of this Settlement Agreement, the Parties will jointly move the Commission to issue a final order in Docket No. 2011-47-WS affirming the rates placed in effect under bond by CWS, releasing the bond posted by CWS to secure those rates, declaring the rates superseded by the rates approved pursuant to this Settlement Agreement, and declaring any and all other issues in that docket resolved.)



Revenues were \$8,463,388, Total Operating Expenses were \$6,985,729, Net Income for Return was \$1,488,082, Return on Equity was 4.46%, Return on Rate Base was 5.57%, and Operating Margin was 6.70%. Hearing Exhibit 21, Revised Exhibit DFS-1 and Revised Exhibit DFS-8. Based on these adjusted test year amounts, the Commission concludes that rate relief is appropriate.

**b) Approved Rates, ROE, and Resulting Operating Margin**

Company witness Durham asserted that the settlement reached by the Parties is fair and reasonable and that the charges resulting from the terms of the Settlement Agreement represented a fair compromise of the Parties' position in this case. Tr. p. 172. Mr. Durham testified that the settlement has the benefit of providing the Company and the customers with certainty and has the effect of reducing regulatory costs thereby resulting in savings to both the Company and the customers. Tr. pp. 172-173.

ORS witness Sullivan presented revised exhibits to reflect the terms of the settlement reached by the parties. Tr. p. 382. Mr. Sullivan's revised exhibits were entered into the record as Hearing Exhibit 21. Tr. p. 381. Under the Settlement Agreement, the Parties agreed to rates which are calculated to produce additional revenue of \$1,037,779. Hearing Exhibit 12, page 3, ¶ 2. The increase in revenues of \$1,037,779 agreed to in the Settlement Agreement produces a 12.69% operating margin. Hearing Exhibit 21, Revised Exhibit DFS-1. With these additional revenues, Total Operating Revenues are calculated as \$9,501,167; Total Operating Expenses are calculated as \$7,388,852; Customer Growth is calculated as \$15,035, and Net Income for Return is calculated as \$2,127,350. Hearing Exhibit 21, Revised Exhibit DFS-1 and Revised Exhibit DFS-4, page 9 of 9; Hearing

Exhibit 18, Exhibit WJM-3. Operating Margin is calculated as 12.69%. Hearing Exhibit 12, page 3, ¶ 2; Hearing Exhibit 21, Revised Exhibit DFS-1.

In his testimony, Dr. Carlisle recommended an appropriate range for the ROE of CWS. Dr. Carlisle's recommended range based upon his analyses was 9.03% to 10.21% with the average of his results calculated at 9.60%. Tr. p. 444. Dr. Carlisle's testimony is evidence of record to support the ROE of 9.50% as settled on by the Parties as a fair and reasonable ROE.

**c) Rate Design**

The Settlement Agreement contemplates continuation of the current rate structure. Under the Settlement Agreement, the Parties agreed to an increase in rates for water service where CWS will charge its residential water customers a base facility charge of \$12.49 per month, a commodity charge of \$4.72 per 1,000 gallons for customers being served with water from a well source, and a distribution charge/commodity charge of \$2.71 per 1,000 gallons plus the cost of the water on a pro rata basis charged by the third party supplier for distribution only customers. Commercial customers with a 1" meter or greater will be charged a higher base facility charge for water service based upon the size of the meter. The Parties also agreed to a flat rate of \$45.04 per month for residential sewer service, a minimum flat rate of \$45.04 per month for each SFE for commercial service, and a base charge of \$29.69 per month for each SFE for sewer collection only service plus treatment charges imposed by a third party entity for both residential and commercial customers. Hearing Exhibit 12; Tr. pp. 173-174. The complete rate table is contained in Settlement

Agreement Exhibit-1, which is part the Settlement Agreement. *See* Order Exhibit 1 attached.

Rate design is a matter of discretion for the Commission. In establishing rates, it is incumbent upon us to fix rates which “distribute fairly the revenue requirements [of the utility.]” *See Seabrook Island Property Owners Association v. S.C. Public Service Comm’n*, 303 S.C. 493, 499, 401 S.E.2d 672, 675 (1991). Our determination of “fairness” with respect to the distribution of the Company’s revenue requirement is subject to the requirement that it be based upon some objective and measurable framework. *See Utilities Services of South Carolina, Inc. v. South Carolina Office of Regulatory Staff*, 392 S.C. 96, 113-114, 708 S.E.2d 755, 764-765 (2011).

We conclude the rate design proposed by the Settlement Agreement is reasonable as this rate design fairly distributes the revenue requirement of the Company among the classes of customers.

**d) Additions to and changes in the terms and conditions of service**

The Company and ORS propose four changes in CWS’s rate schedule: (1) a \$40 non-recurring water disconnection charge, (2) a \$35 water meter installation fee, (3) a \$500 (no elder valve) or \$40 (elder valve) non-recurring sewer disconnection charge, and (4) a tampering charge of up to \$250 per occurrence for actual costs incurred by CWS are appropriate. The Commission finds that these proposed changes to the Company’s rate schedule are just, fair and reasonable.

The testimony of ORS witness Morgan reflects that ORS has investigated the actual costs to the Company of providing the services which these specific non-recurring charges

are sought. According to Mr. Morgan, this language and the associated charges are acceptable in order to prevent the general body of ratepayers from paying a share of these costs which should be charged to those individual ratepayers causing or incurring such expenses. Tr. pp. 350 – 354.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Settlement Agreement, including Settlement Agreement Exhibit 1, attached hereto as Order Exhibit 1 is incorporated into and made a part of this Order by reference.

2. The Settlement Agreement between the Parties is adopted by this Commission and is approved as we find the Settlement Agreement produces rates that are just and reasonable and in the public interest as well as providing a reasonable operating margin for the Company.

3. The rates approved shall be those rates agreed upon in Settlement Agreement Exhibit-1 of the Settlement Agreement as shown in Order Exhibit 1 and shall be effective for service rendered by the Company on and after the date of this order.

4. The additional revenues that the Company is entitled the opportunity to earn result in an operating margin of 12.69%.

5. The Company shall maintain its books and records according to the NARUC Uniform System of Accounts. In addition, CWS shall properly record assets and the disposition of those assets, including retirements, in its books and records.

6. CWS shall submit bulk water and bulk sewer treatment contracts, whether the bulk contract is for supplemental water or for supply or for sewer treatment, for Commission approval pursuant to 10 S.C. Code Ann. Regs. 103-541 and 103-743 (2012).

7. CWS shall provide notice to the Commission and its customers of any increase in bulk water charges or sewer treatment charges prior to billing customers for any increases from third party suppliers of bulk water or sewer treatment charges.

8. CWS shall work with Forty Love Point HOA and ORS to study the feasibility of interconnection of the Forty Love Point subdivision to a bulk water supply with the City of Columbia and shall report the findings of the study to the Commission within six months of the issuance of this order.

9. CWS shall continue to maintain the current performance bond amount for water operations in the amount of \$350,000 and the current performance bond amount for wastewater operations of \$350,000.

10. In its next Application for an adjustment in rates, CWS shall include a rate structure which includes rates for both 6-inch and 8-inch meters to properly capture all customer types and services being provided by the Company.

11. Within 10 days of the date of this order, CWS shall file a copy of its tariff reflecting the rates and charges and changes to its terms and conditions approved herein. The tariff shall be filed with the Commission and with the ORS.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

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G. O'Neal Hamilton, Chairman

ATTEST:

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Nikiya Hall, Vice-Chairman